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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Many encouraging statistics renew hopes that the U.S. economy may have started to recover. The U.S. Department of Commerce (Commerce) reported that sales of consumer goods increased 1.3 percent in February 1992, after a revised increase of 2.1 percent in January 1992. Retail sales increased 4.6 percent since February last year. Some analysts think that the increase in retail sales might lead to more aggressive buying of merchandise in the third and fourth quarters of this year by big retail chain stores, which would strengthen the recovery. The pickup in retail sales follows a chain of other promising statistics. The U.S. Department of Labor reported that nonfarm employers added 164,000 new jobs to their payrolls in February; Commerce reported that home sales jumped by nearly 13 percent in January, and construction of new homes and apartments soared 9.6 percent in February, the biggest 1-month gain in a year. In addition the Federal Reserve reported that the Nation's total factory output rose by 0.6 percent in February, the first rise since last September. Moreover, the index of leading economic indicators and the purchasing managers' index both surged in February. More important, monetary growth accelerated, creating a larger supply of inexpensive capital to finance new plant and investment. Banks across the nation, having improved profits and largely completed their balance sheet adjustments, are expressing more willingness to lend. Meanwhile, businesses are reportedly in the process of paying off their high-interest debts and replacing them by lower-interest bonds or debentures, or issuing new stock and other instruments of equity financing. Much depends, however, on the success of households and businesses in shedding enough of the debt they piled up during the 1980s.

In the foreign sector, the U.S. current account deficit shrank sharply to $8.62 billion in 1991 from the $92.12 billion in 1990. A record surge in exports and a decline in imports combined with foreign payments for the Gulf War caused the turnaround.

There is still no consensus, on how soon the recovery will start. Some economists see the economy developing an unmistakable momentum toward recovery, while others stress that the signs of recovery are still tentative and that the upturn could be short-lived. Major forecasts, however, see a slow and moderate upturn in the range of 2 to 3 percent for 1992.

Economic Growth

The rate of real economic growth is expressed as the change in real gross domestic product (GDP)—the output of goods and services produced in the United States. GDP in the fourth quarter of 1991 (as measured in 1987 prices) increased by a revised rate of 0.4 percent at an annual rate. That was down from an earlier estimate of 0.8 percent and down from a revised third quarter increase of 1.8 percent at an annual rate. Real GDP declined by 0.7 percent in all of 1991.

The annualized rate of real economic growth in the fourth quarter of 1991 was -1.4 percent in Germany, -1.4 percent in the United Kingdom, -0.8 percent in Canada and nil in France. The real growth rate in the third quarter of 1991 was 1.6 percent in Japan, and 0.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production rose in nominal terms by 0.6 percent in February after revised declines of 0.6 percent in December 1991 and 0.8 percent in January 1992. A rebound in the output of motor vehicles and parts accounted for about half of the rise in the total index. Production in other sectors, that had weakened markedly in December and January, partially recovered. The February 1992 index, at 107.2 percent, was 1.4 percent higher than the 1991 annual level. Capacity utilization in manufacturing, mining, and utilities rose 0.3 percent in February 1992 to 78.2 percent.

Other major industrial countries reported the following annual growth rates of industrial production. For the 12 months ending January 1992, Japan reported a decrease of 4.0 percent and Germany reported an increase of 0.1 percent. For the year ending December 1991, France reported an increase of 2.6 percent, the United Kingdom a decrease of 0.1 percent, Canada a decrease of 0.8 percent, and Italy a decrease of 2.3 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.3 percent in February after rising by 0.1 percent in January 1992. The consumer price index rose by a very moderate 2.8 percent during the 12 months ending February 1992. During the 12 months ending February 1992, consumer prices increased 5.4 percent in Italy, and 4.3 percent in Germany. During the 12 months ending January 1992, consumer prices increased 4.1 percent in the United Kingdom, 1.6 percent in Canada, 2.9 percent in France, and 1.8 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States rose to 7.3 percent in February from 7.1 percent in January 1992. Nonfarm payroll employment rose in February, however. The gains in payroll employment are concentrated in retail trade, services, and auto manufacturing, according to the Bureau of Labor Statistics.

In February 1992, the rate of unemployment was 5.5 percent in Germany and 10.6 percent in Canada. In January 1992 unemployment was 9.2 percent in the United Kingdom, 9.8 percent in France, 2.1 percent in Japan, and 10.7 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Major forecasts point to a moderate rebound of economic growth starting in the second quarter, followed by stronger growth in the second half of 1992. Moderating the economic recovery in the first half of 1992 will be (1) the general slowdown in the global economic growth, particularly in industrialized countries, (2) sagging consumer confidence with the expected sluggish rise in consumer spending, and (3) an expected slow rise in capital investment. Table 1 shows macroeconomic projections for the U.S. economy for January to December 1992 by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

Several factors appear to be working in favor of stronger growth in the second half of 1992. One is an expected surge in consumer spending in the second half of 1992 due to a decline in interest and inflation rates; another is an expected surge in export growth as a result of the increase in U.S. competitiveness due to the moderation of the foreign value of the dollar. There should also be some improvement in the industrial countries' economic conditions that should increase foreign demand for U.S. exports. The buildup of the currently low level of U.S. business inventories could also help propel the recovery in the industrial sector. The average of the forecasts points to a slight increase in the unemployment rate in the second quarter of 1992 and a slight decline afterwards. Inflation (as measured by the GDP deflator) is expected to slow in the first quarter of 1992, to rise in the third, and then again in the fourth quarter of the year.

Table 1
Projected quarterly percentage changes at annual rates of selected U.S. economic indicators, January–December 1992

Quarter	*UCLA Business Forecasting Project*	*Merrill Lynch Capital Markets*	*Data Resources Inc.*	*Wharton E.F.A. Inc.*	*Mean of 4 forecasts*
			GDP current dollars		
1992:					
January-March	1.4	3.2	3.0	2.1	2.4
April-June	2.7	5.8	6.1	3.8	4.6
July-September	5.1	7.0	6.4	6.5	6.3
October-December	5.8	7.0	6.7	6.1	6.4
			GDP constant (1987) dollars		
1992:					
January-March	-1.1	0.3	0.3	-0.9	-0.4
April-June	1.7	2.4	2.9	2.1	2.3
July-September	2.7	3.4	3.3	3.8	3.3
October-December	2.4	3.2	3.6	3.2	3.1
			GDP deflator index		
1992:					
January-March	2.5	2.9	2.7	2.1	2.8
April-June	1.0	3.3	3.1	1.7	2.3
July-September	2.4	3.5	3.0	2.6	2.9
October-December	2.7	3.6	3.0	2.8	3.0
			Unemployment, average rate		
1992:					
January-March	7.2	7.1	7.2	7.2	7.2
April-June	7.3	7.1	7.3	7.4	7.3
July-September	7.4	6.9	7.2	7.4	7.2
October-December	7.4	6.8	7.0	7.3	7.1

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: Mar. 1992.

Source: Compiled from data provided by The Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit declined slightly from $6.0 billion in December 1991 to $5.8 billion in January 1992. Both imports and exports declined in January. However, a greater decline in imports accounted for the improvement in the monthly balance. Exports declined by $348 million to $35.5 billion in January and imports declined by $582 million to $41.3 billion. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

The January 1992 deficit was 5.5 percent higher than the $5.5 billion average monthly deficit registered during the previous 12-month period and 21.6 percent lower than the $7.4 billion deficit registered in January 1991. When oil is excluded, the January 1992 merchandise trade deficit remained at $2.8 billion, the same level as in the previous month.

Nominal export changes and trade balances on a monthly basis for specified major commodity sectors are shown in table 3. Inorganic chemicals, electrical machinery, vehicle parts, textile yarns, fabrics and articles, and general industrial machinery were among the sectors that recorded increases from December 1991 to January 1992. Airplanes led the sectors that recorded trade surpluses in January 1992. The U.S. agricultural trade surplus declined to $1.6 billion in January 1992 from $1.9 billion in December 1991.

U.S. bilateral trade balances on a monthly basis with major trading partners are shown in table 4. From December 1991 to January 1992, the United States recorded declines in bilateral merchandise trade deficits with Japan, Canada, and Germany; and deficit increases with EFTA, the newly industrializing countries (NICs)[1], China, and OPEC. The U.S. trade surpluses with the EC, Western Europe, and the C.I.S. increased.

INTERNATIONAL TRADE DEVELOPMENTS

Privatization in Mexico Advances

Two years ago, we reported on the progress of Mexico's privatization program (*IER*, March 1990). Since then, Mexico has proceeded vigorously with streamlining its state-owned and state-controlled (parastatal) sector as part of the endeavor to shift to a market-oriented economy. Even though the process of reducing the parastatal sector is referred to popularly as "privatization," the officially accepted terms in Mexico are "disincorporation" or "disinvestiture." These broader terms are preferred because shrinking the parastatal sector also involves a fair amount of liquidation of entities; the merger of some with other entities; or transfers from the Federal Government to the so-called "social sector" (municipal governments, workers' unions or cooperatives,) in addition to selling government-owned or government-controlled operations to the private sector (privatization).

The reprivatization of Mexico's banking system, which was nationalized in 1982, has been the most active and important area of disinvestiture lately. Legislation authorizing this process was introduced by President Salinas de Gortari in May 1990, and quickly passed the Mexican Congress. Throughout 1991, the program proceeded at a rapid pace. To date, the Government has sold 11 of the country's 18 commercial banks to the private sector: 9 last year and 2 this year. The sales included the Banco Nacional de Mexico (BANAMEX), Mexico's oldest and most profitable bank and also one of Latin America's three largest banks. The sale of BANAMEX in September 1991 to ACCIVAL, a wealthy domestic interest group, fetched a price of $3.2 billion.

Total revenues from the sale of the 11 banks amounted to some $9 billion. Thus, measured in terms of the revenues it generated for the Federal Government, the privatization of Mexican banks has

Table 2
U.S. merchandise trade, seasonally adjusted.

Item	Exports December 91	Exports January 92	Imports December 91	Imports January 92	Trade balance December 91	Trade balance January 92
	Billion dollars					
Current dollars—						
Including oil	35.9	35.5	41.9	41.3	-6.0	-5.8
Excluding oil	35.2	34.9	37.9	37.7	-2.8	-2.8
1987 dollars	33.8	33.6	39.0	38.7	-5.2	-5.1
Three-month-moving average	36.7	36.1	42.1	41.4	-5.5	-5.3
Advanced-technology products (not seasonally adjusted)	9.0	7.9	5.8	4.9	3.2	3.0

Source: U.S. Department of Commerce News, FT 900, Mar. 1992

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, December 1991-January 1992.

Sector	Exports January 1992	Change January 1992 over December 1991	Share of total January 1992	Trade balances January 1992
	Billion dollars	Percent	Percent	Billion dollars
ADP equipment & office machinery	1.96	-19.0	5.7	-0.41
Airplanes	1.93	-14.2	5.6	1.67
Airplane parts	0.77	-13.5	2.2	0.50
Electrical machinery	2.49	12.2	7.2	-0.35
General industrial machinery	1.49	4.2	4.3	0.28
Iron & steel mill products	0.32	3.2	0.9	-0.43
Inorganic chemicals	0.38	31.0	1.1	0.02
Organic chemicals	0.88	1.2	2.5	0.14
Power-generating machinery	1.43	-7.7	4.1	0.19
Scientific instruments	1.13	0.9	3.3	0.62
Specialized industrial machinery	1.25	-5.3	3.6	0.35
Telecommunications	0.81	-11.0	2.3	-1.01
Textile yarns, fabrics and articles	0.45	4.7	1.3	-0.21
Vehicle parts	1.21	11.0	3.5	-0.02
Other manufactured goods[1]	2.28	0	6.6	-0.01
Manufactured exports not included above	7.88	4.1	22.8	-7.02
Total manufactures	26.66	-1.1	77.1	-5.65
Agriculture	3.60	-6.3	10.4	1.57
Other exports	4.34	0.7	12.5	-1.14
Total	34.60	-1.4	100.0	-5.22

[1] This is an official U.S. Department of Commerce commodity grouping.

Note: Because of rounding, figures may not add to total shown.

Source: *U.S. Department of Commerce News (FT900)*, Mar. 1992.

Table 4
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1992, December 1991 and January 1991.
(Billion dollars)

Area or country	January 1992	December 1991	January 1991
Japan	-3.82	-4.46	-3.46
Canada	-0.19	-0.91	-0.45
Germany	-0.23	-0.60	-0.42
EC	1.88	1.16	1.34
Western Europe	1.69	1.11	1.10
European Free Trade Association (EFTA)	-0.20	0.08	0.29
NICs[1]	-1.31	-1.15	-0.99
C.I.S[2]	0.29	0.29	0.15
Mexico	0.58	0.50	-0.08
China	-1.40	-1.03	-0.91
OPEC	-0.74	-0.67	2.02
Total trade balance	-5.22	-5.69	-7.02

[1] NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

[2] The data include the republics of the former Soviet Union, excluding the Baltic Republics.

Note.--The difference between trade balances shown in the total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: *U.S. Department of Commerce News (FT-900)*, Mar. 1992.

already been almost accomplished. According to estimates, the Government's combined revenues from the sale of Mexico's entire banking system will amount to some $11 billion once the remaining seven smaller banks have been sold, which are events expected to happen by late summer this year.

Starting a new life under private ownership, in 1991 BANAMEX joined Telefonos de Mexico (TELMEX), another icon of Mexican commercial life. The first stage of TELMEX's privatization took place in December 1990, when the Government sold its controlling interest in this monopoly to a consortium led by the GRUPO CARSO, and including Southwestern Bell of the United States and France Telecom. This transaction left the Mexican Government with a 26-percent equity stake in TELMEX. This was then reduced to 8.4 percent in May and June 1991 through stock offerings to a variety of purchasers, including a company formed by TELMEX employees. The Government's combined revenues from both stages of privatizing TELMEX amounted to some $4.0 billion.

The privatization of AHMSA and SICARTSA, two large steel mills, also took place last year. In addition, during the year Mexico has taken the first steps to privatize its transportation system. The Government granted concessions to private entrepreneurs to build and operate over 1,500 miles of new highways linking major manufacturing centers with large cities and with the U.S. border. The Government also announced that it would further relax the private ownership and operation of trains. Private companies will be allowed to buy railcars and operate them, relying on Mexico's state-owned railroad only for engine services. The Government also began the privatization of Mexico's port systems by (1) granting concessions to private companies to own and operate warehouses, docks, and loading facilities, and (2) long-term leasing of facilities.

The key parastatal enterprises scheduled for sale in 1992 include the remaining commercial banks, FERTIMEX (the fertilizer monopoly), ASEMEX (insurance company), and the state-owned television station.

Revenues from the sale of state-owned enterprises, and the concomitant elimination of large subsidies that were required to keep many of these entities in operation, considerably strengthened Mexico's public finances. Some examples of the Federal Government's impressive one-time revenues from recent privatizations have already been cited. During 1991, the Government used part of these revenues to retire internal debt, reducing it from 23.4 percent of GDP at the end of 1990 to 17.2 percent at the end of 1991. Subsidies to parastatals have decreased from 2.9 percent of the GDP in 1982 to less than 1.5 percent in 1991.

In contrast to the sale of TELMEX, there was no foreign participation in the privatization of BANAMEX, reflecting an apparent strategy of Mexican policy makers to ensure that the main elements of the financial system remain in Mexican hands. Under existing rules, foreign investors are restricted to a maximum 30-percent share in the banking sector. Because of these restrictions, foreign banks (with the notable exception of one Spanish bank) showed little interest in the reprivatization of Mexico's banks.

The U.S. request that Mexico ease the limits imposed on foreign investors in the banking area is one of the issues on the table in the current U.S.-Canadian-Mexican negotiations of a North American free-trade agreement (NAFTA). In general, Mexico is very interested in capturing large amounts of foreign investment, except in those areas where ownership is constitutionally restricted to the state or to Mexican nationals. Nonetheless, Mexico's very restrictive foreign investment law, which generally forbids majority ownership to foreigners, has not been removed from the books. However, the effectiveness of this law has been largely neutralized with regulations issued in 1989, which allowed majority foreign ownership in many economic sectors, albeit under specified conditions. The 1989 regulations also permitted foreigners in sectors from which they were previously excluded, including telecommunications and secondary petrochemicals (*IER*, July and November 1989). Current public discussions about the desirable scope of foreign investment in Mexico in the context of the NAFTA tend to conclude that most areas not restricted by the Constitution should be opened up to 100-percent ownership by foreign investors.

In the past year, the Mexican Government continued with liquidations, mergers, and other forms of disincorporating the parastatal sector, in addition to the impressive progress it made in selling entities to private interests. As of February 1992, the number of parastatal enterprises has dropped to 234 from 1,155 in 1982. By the time the entire disinvestiture process has been completed, the Mexican Government expects to own fewer than 200 entities. The most notable ones that will remain state-owned are PEMEX (the petroleum monopoly,) the Federal Electricity Commission, the railroads (other than certain railroad-related activities cited above) and the postal service. In addition, companies that provide social services but are not profitable will remain in the public sector. The Government's objective is to withdraw entirely from most industrial areas, and thereby eliminate economically and socially unjustifiable expenditures and subsidies.

Chile: Balancing Capital Mobility and Export Competitiveness

Chile's record of macroeconomic stability and liberal trade and investment policies have made it an attractive destination for foreign investment. Chilean exports increased from $3.8 billion in 1985 to over $8.3 billion in 1990 and nearly $9 billion in 1991. Long-term foreign investment in Chile increased from $62 million in 1985 to an estimated $587 million in 1990. At the same time, short-term capital inflows also have risen sharply—from a net outflow of $326 million in 1988 to net inflows of $369 million in 1989 and $553 million in 1990 (table 5).

Table 5
Chile: capital movement in million of dollars

	1988	1989	1990	1991
Export earnings	7,052	8,080	8,310	8,924
Long-term investment[1]	109	259	587	—
Short-term investment[2]	-326	369	553	—
Net capital movement[3]	1,107	1,493	3,301	1,390
Reserves[4]	3,116	3,604	6,067	7,040

[1] Actual investment. Excludes transactions in bonds and shares and other long-term transactions in which the investor does not have a permanent and effective share in the management and/or control of the firm.
[2] Investments other than direct and portfolio investment with maturity of 12 months or less.
[3] Includes short- and long-term capital, unrequited official transfer payments, and errors and omissions.
[4] Foreign exchange reserves at yearend.

Sources: International Monetary Fund (IMF), *International Financial Statistics* Mar. 1992, p. 162 (export earnings and foreign exchange reserves); Inter-American Development Bank (IADB), *Economic and Social Progress in Latin America, 1991 Report* (New York: IADB, 1991), tables D-14 and D-17, pp. 303-305 (investment); and Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economy of Latin American and the Caribbean, 1990,* table 15, p. 32 and ECLAC, *Preliminary Overview, 1991,* table 15, p. 50 (net capital movement).

In 1991, based on the concern that short-term capital inflows would cause the Chilean peso to appreciate in real terms and thus adversely affect the trade balance, the Chilean Government implemented a reserve requirement for short-term capital obtained from foreign-source loans. While this requirement marks a step backward for Chile's generally liberal and nondiscriminatory foreign investment regime, it shows the difficulties the Chilean Government is encountering in maintaining noninflationary export-based economic growth while simultaneously dismantling barriers to trade and investment.

Policy options

The most general objectives of economic liberalization are to eliminate distortions in the allocation of resources (the markets for goods, capital, and services) and to reduce the role of discretionary government intervention in the economy. Liberalization of the foreign trade regime also aims to encourage export-led economic growth, while liberalization of the investment regime holds the promise of making capital markets more efficient and stimulating an inflow of investment capital. A foreign capital inflow is likely to occur for two reasons[1]: (1) the demand for capital in the form of loans acquired abroad increases[2] as a result of reduction of restrictions on capital mobility, particularly if real interest rates on loans obtained domestically are higher than real foreign interest rates,[3] and (2) the supply of foreign capital increases to the extent that the process of liberalization itself (including related activities, such as the privatization of government-owned enterprises) encourages greater foreign investment and reduces investors' perception of risk in the reforming country.

Because of the difference between the speeds of adjustment in goods and in capital markets,[4] most economists acknowledge the need for proper sequencing of economic reforms and generally distinguish between two policy options. One option is to reduce restrictions on capital mobility before or simultaneously with the implementation of trade reforms. Such a course is recommended because foreign capital can be used to compensate for the short-run costs or dislocations entailed in postliberalization structural economic adjustment. Consequently, early liberalization of capital controls may minimize domestic opposition to economic reforms.[5]

The other option is to lower restrictions on capital inflows after trade barriers have been reduced or dismantled.[6] The rationale behind this strategy is that the relaxation of capital controls may result in substantial destabilizing capital inflows.[7] This capital is destabilizing to the extent that it causes the real exchange rate to appreciate as demand for domestic currency increases. Real exchange appreciation is particularly likely when domestic prices—boosted by indexation schemes that automatically increase wages and prices based on the prior month's inflation rate—rise relative to prevailing international prices. Even when the nominal exchange rate is depreciating, rising domestic prices can cause the real exchange rate to appreciate. Real exchange rate appreciation, in turn, makes exports less competitive in international markets while making imports more

[1] For a discussion of the role of expected investment yields and exchange rates on international capital flows, see Ingo Walter, *International Economics* (New York: Ronald Press Co., 1975), p. 319.

[2] For a discussion of the substitutability of foreign and domestic assets in Chile, see Vittorio Corbo, "Chile," in *Economic Liberalization and Stabilization Policies in Argentina, Chile, and Uruguay,* ed. Nicolas Ardito Barletta et. al. (Washington, DC: World Bank, 1983), p. 57.

[3] Rudiger Dornbusch and Stanley Fischer, *Macroeconomics,* 3rd ed., (New York: McGraw-Hill, 1984), p. 651.

[4] Capital (asset) markets adjust to changes faster than goods markets because "[a]sset markets are more sensitive to expectations." Jacob A. Frenkel, "Economic Liberalization and Stabilization," in *Economic Liberalization and Stabilization...,* p. 12.

[5] These views are summarized in Sebastian Edwards, "The Sequencing of Economic Reform: Analytical Issues and Lessons from Latin American Experiences," *The World Economy,* vol. 3, No. 1, Mar. 1990, pp. 1-13.

[6] Ibid.

[7] This phenomenon is described in more detail in Maurice Obstfeld, "The Capital Inflows Problem Revisited: A Stylized Model of Southern Cone Disinflation," *Review of Economic Studies,* vol. 52, (Oct. 1985), pp. 605-625.

competitive domestically (especially in combination with trade-liberalizing measures), leading to a deterioration in the reforming country's trade balance.[8]

Chilean economic liberalization

Unlike most other Latin American countries, Chile has pursued export-oriented economic growth for nearly two decades. After overthrowing the Salvador Allende government in a 1973 military coup, the government of General Augusto Pinochet introduced economic policies based on orthodox free-market and monetarist economic theories. Despite severe domestic political repression, the Pinochet regime opened the Chilean economy through three key reforms: (1) liberalizing the foreign trade sector, which entailed unifying tariffs in 1975 and gradually reducing the single unified tariff to 15 percent by 1988; (2) enacting Chilean Decree Law 600 to guarantee foreign investors a transparent and nondiscriminatory legal environment in which to operate as well as to guarantee investors access to foreign exchange to repatriate profits and, after 3 years, investment capital; and (3) launching a program to sell off many government-owned enterprises that had been nationalized under prior administrations. These policies are being continued by the current Chilean civilian government headed by the democratically-elected president Patricio Aylwin. In June 1991, the Aylwin administration further reduced the Chilean unified tariff to 11 percent.

Barriers to capital mobility were lowered late in Chile's economic liberalization process. Since 1977, all capital entering Chile obtained from foreign-source loans must be registered with the Chilean Central Bank. Repatriation of these funds generally adheres to an amortization schedule established at the time of registration. Full capital repatriation is allowed only after 3 years, although profits may be repatriated annually and dividends repatriated on a quarterly basis. The Chilean Government relaxed these restrictions for short-term capital investments in 1982. In 1990, the requirement that Chilean Central Bank approve all foreign exchange transactions was virtually abolished.[9] In early 1992, the Aylwin administration proposed legislation to reduce the waiting period for repatriation of investment capital from 3 to 1 year.

Exchange rate regime

The Chilean Government traditionally has relied on maintaining a competitive exchange rate to promote export-led economic growth. By the late 1980s, Chile's export sector (including copper, fresh fruit, forest products, and fish products) accounted for nearly one-third of gross domestic product (GDP).

[8] Dornbusch and Fischer, *Macroeconomics*, p. 669.

[9] Ernst & Young, *Doing Business in Chile* (New York: Ernst & Young, 1991), p. 11 and GATT Secretariat, *Trade Policy Review Mechanism: The Republic of Chile*, C/RM/S/14A, (June 3, 1991), pp. 29, 35.

To keep Chilean products priced competitively in international markets, the Chilean peso is "pegged" to the U.S. dollar. In this process, the nominal exchange rate of the peso is adjusted (depreciated) daily against the dollar based on the estimated difference between Chilean and world inflation rates during the previous month.[10] This process establishes a peso "reference" exchange rate. The actual market value of the peso is allowed to vary within a band of 5 percent above or below the reference rate. The Chilean Central Bank intervenes in the foreign exchange market by buying and selling U.S. dollars to keep the peso within the band whenever the market peso rate rises above or falls below the band limits.

Economic development

An expansionary monetary policy facilitated Chilean economic growth between 1986 and 1988 and was accompanied by relatively low infaltion and moderate real interest rates. Despite further liberalization of the trade and investment regimes, continued economic expansion, and success in increasing and diversifying exports during the 1980s, management of the Chilean economy has become complicated in the 1990s.

Buoyed by higher oil prices, cost-of-living wage raises and an increase in the minimum wage, taxes introduced by the new administration, and inflationary expectations based on President Aylwin's promises to increase domestic social spending, Chile's inflation rate reached 27.3 percent in 1990. At the same time, Chile was flooded by an inflow of foreign exchange from windfall copper export earnings.[11] To dampen domestic demand and reign in inflation, the administration tightened monetary growth and raised real interest rates—which peaked at 16.5 percent in March 1990. These policies succeeded in slowing economic activity in 1990 and helped reduce the inflation rate somewhat by 1991 (table 6).

Exchange market intervention

According to Chilean Finance Minister Alejandro Foxley, Chile's high real interest rates, compared with relatively lower international interest rates, stimulated an inflow of short-term foreign capital beginning in late 1990 (table 5). This precipitated a "dollar glut" in Chilean capital markets.[12] Until June 1991, the Chilean authorities viewed the surge in capital inflows as a "temporary phenomenon brought about by higher-than-expected copper prices

[10] GATT, *Trade Policy Review*, p. 25.

[11] Copper prices rose from an annual average of $0.64 per pound in 1985 to $1.29 per pound in 1989 and $1.21 per pound in 1990. United Nations, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economy of Latin America and the Caribbean, 1991*, LC/G.1696 (Dec. 1991), table 12, p. 47 and *Preliminary Overview, 1990*, Dec. 1990, table 12, p. 30.

[12] Government of Chile, Foreign Investment Committee (FIC), "Interview with Chilean Minister of Finance Alejandro Foxley," *Chile: Foreign Investment Report* (Santiago, Chile: FIC, July 1991), p. 15.

and falling international interest rates."[13] With the peso at the limits of the exchange rate band, the Chilean Central Bank was obliged to purchase excess dollars in the exchange market.[14] This helped boost the Chilean Government's foreign exchange reserves from $4.4 billion in mid-1990 to nearly $6.1 billion by the end of the year, rising to over $7.0 billion by the end of 1991 (table 5).

To prevent exchange market dollar purchases from expanding the national money supply (which would have exacerbated inflation and overheated the economy), the Chilean Central Bank offset its dollar purchases with sales of government securities. However, the Central Bank increasingly was forced to offer high interest rates to sell its securities. Ultimately, the Chilean Government was unable to offset all of its dollar purchases. The untimely result was an expansion of the Chilean money supply (table 6).

The "encaje"

Recognizing its inability to simultaneously offset massive dollar purchases, restrain growth of the money supply, and maintain low interest rates, by mid-1991 the Chilean Government came to view the persistent peso appreciation within the band as the result of structural changes in international competitiveness. The Chilean administration opted for direct corrective policy action. However, rather than sharply revalue the peso to discourage short-term capital inflows (which "would reduce inflation but weaken the competitiveness of the export sector"), the Chilean Government chose "to discourage short-term capital income."[15]

[13] ECLAC, *Preliminary Overview, 1991*, p. 13.

[14] In May 1991, the monthly reference exchange rate was 357 pesos per dollar and the average market rate was 340 pesos per dollar—a spread of 4.8 percent below the reference rate. The spread declined to 4.2 percent by July, but remained at 4.9 percent through the end of the year. U.S. Department of State Telegram, Feb. 19, 1992, Santiago, message reference No. 01298.

[15] FIC, "Interview with Finance Minister Foxley," p. 15.

Chilean authorities enacted a foreign capital reserve provision ("encaje") in June 1991. As a result, all investors are required to post a cash reserve of 20 percent of the amount capital obtained from foreign-source loans brought into Chile for periods of less than 1 year. The reserve amount is deposited with the Chilean Central Bank for 1 year and does not accrue interest. As an alternative to the 20-percent reserve requirement, investors have the options of paying a tax equal to the interest foregone of 20 percent of their investment or of purchasing the equivalent amount of Chilean Central Bank bonds. In January 1992, the Chilean Central Bank announced that the reserve requirement would be extended to include U.S.-dollar-denominated interest-bearing bank accounts held in Chile.[16] According to Chilean Finance Minister Foxley, the "encaje" will have little if any impact on the long-term foreign direct investment that has become crucial to Chile's economic expansion.[17]

When the reserve requirement was implemented, the Chilean Government also reduced the uniform tariff from 15 percent to 11 percent, in part to help stem the accumulation of excess dollars. To reduce the need for exchange market intervention, the Chilean Government widened the exchange band from 5 percent to 10 percent in late 1991 and to 20 percent in early 1992 accompanied with a 5-percent peso revaluation against the dollar.[18]

[16] U.S. Department of State telegram, Jan. 23, 1992, Santiago, message reference No. 00579.

[17] FIC, "Interview with Finance Minister Foxley," p. 15.

[18] U.S. Department of State telegram, Jan. 23, 1992, Santiago, message reference No. 00579.

Table 6
Chile: selected economic indicators (growth rates)

	1988	*1989*	*1990*	*1991*	*1991*
		Percent		*(1st half)*	*(annual)*
GDP[1]	7.5	9.8	2.0	4.1	5.0
Money supply[2]	46.6	25.3	12.0	19.2	40.3
CPI inflation[3]	12.7	21.4	27.3	10.1	17.8
Real interest rate[4]	7.6	10.2	13.2	8.8	8.5

[1] Real gross domestic product.

[2] Narrowly defined money supply (nominal M1A).

[3] Inflation measured by the consumer price index (CPI).

[4] Annualized interest rates on 90-day commercial bank loans in Chile.

Sources: ECLAC, *Preliminary Overview, 1991* (GDP and CPI); U.S. Dept. of State telegram, Feb. 19, 1992, Santiago, message reference No. 01298 and U.S. Dept. of State telegram, Oct. 31, 1991, Santiago, message reference No. 08838 (money supply and interest rate).

Assessment

The "encaje" represents a step backward for Chile's generally liberal and nondiscriminatory treatment of foreign investment. However, the decision to implement a reserve requirement for short-term capital underscores the Chilean Government's commitment to maintain a competitive real exchange rate and to promote noninflationary export-led economic growth. Nevertheless, the January 1992 peso revaluation has incurred the ire of some Chilean exporters who complain that the Aylwin administration may be prepared to sacrifice some loss of Chilean export competitiveness for the sake of lower domestic inflation during the runup to Chile's 1993 presidential election.

U.S.-Japan Semiconductor Agreement Under Fire

With only 9 months remaining, it appears that foreign semiconductor producers will not be able to achieve the yearend goal of a 20-percent share of the Japanese market as expected under the 1991 U.S.-Japan Semiconductor Agreement. The United States Trade Representative's (USTR) Office estimated that foreign semiconductors accounted for only 14.4 percent of the Japanese market at yearend 1991, down from a highpoint of 15.5 percent in the second quarter of 1990. In order to achieve the 20-percent market-share goal, Japanese firms would have to import a record $1.2 billion worth of foreign semiconductors in 1992. Officials of the American Semiconductor Industry Association (SIA), however, have already voiced concern over continued stagnation in sales of American-made chips to Japan in the first quarter of 1992, and have threatened to push for measures that may include trade sanctions if Japan does not accelerate foreign chip purchases.

The present U.S.-Japan Semiconductor Agreement, signed June 4, 1991, replaced the 1986 agreement that was due to expire in July, 1991 (See *IER*, October, 1991). The new agreement contained words to the effect that foreign producers of semiconductors could expect to achieve a 20-percent share of the Japanese market by the end of 1992. Significantly, mention of the 20-percent market share did not constitute a guarantee, but was accepted by both sides as a reasonable goal. In return for this concession, and promises by the Japanese Government to encourage imports of U.S. chips, the United States eliminated the remaining $165 million in retaliatory tariffs on U.S. imports of certain Japanese electronics products originally imposed by President Reagan in 1987. The agreement did not, however, include an agreed methodology for calculating the foreign share of the Japanese semiconductor market. The two sides instead agreed to meet quarterly to reconcile differences in their calculation of foreign producers' market share.

Industry reaction to the new agreement was mixed. In an unprecedented joint statement, the American Semiconductor Industry Association and the Electronics Industry Association of Japan (EIAJ) stated that they "welcomed" the new 5-year accord, and announced plans to help achieve the 20-percent market share in Japan for foreign suppliers. Some Japanese companies, however, expressed opposition to the agreement, labeling the 20-percent purchasing target as "regrettable," and an infringement on the principles of free trade. This sentiment notwithstanding, the Japanese Ministry of International Trade and Industry (MITI) has made efforts to help achieve the 20-percent market-share goal, including a letter dispatched to 226 Japanese firms in January 1992 asking them to expand their purchases of foreign semiconductors.

Since the agreement was signed, however, the Japanese semiconductor market has undergone considerable change, reflecting the general downturn in the Japanese economy. According to some analysts, stagnant worldwide demand has forced several of the biggest Japanese producers of microchips and computers to slash profit forecasts. Fujitsu Ltd., Japan's biggest computer maker, has cut its profit forecast for this fiscal year (which ended in March) by 40 percent from $787 million to $472 million. NEC Corp., another major Japanese producer of computers, is cutting its profit forecast by 46 percent from $944 million to $511 million. Other major Japanese electronics firms, such as Toshiba and Mitsubishi, have stated that they also may have to revise their profit forecasts. Overall, sales of semiconductor devices in Japan fell an estimated 6 percent in the fourth quarter of 1991.

Given the slump in demand for computers and other electronics products that incorporate semiconductors, as well as excess capacity in Japan's domestic semiconductor industry, many Japanese firms have indicated that a significant expansion of semiconductor imports may be difficult. Japanese executives say buyers are slowing purchases from many suppliers, both foreign and domestic. Reportedly, some Japanese chip makers are finding it harder to sell to local electronics conglomerates, and place blame on the U.S.-Japan Semiconductor Agreement for putting pressure on Japanese electronics firms to increase purchases of foreign chips.

U.S. executives and officials of the SIA, however, have widely rejected Japan's economic rationale for the slowdown in foreign chip purchases. According to these sources, during the boom years of Japan's electronics industry in the late 1980s, Japan's MITI argued that even a sharp increase in purchases of foreign-made chips could not be translated into a significant increase in foreign market share when overall chip sales were growing so rapidly. With the market now in decline and chip purchases at a lower level, many U.S. semiconductor industry officials assert that an increase in foreign market share should be easier to attain. Japanese firms, they argue, should be eager to switch to cheaper, foreign chip suppliers as a means of cutting costs during the current slowdown in the electronics market. Although U.S. semiconductor firms have been able to secure an increasing number of "design-in" projects with Japanese electronics companies, there has not been a

corresponding increase in the level of semiconductor sales to Japan. Member companies of the SIA claim that the current downturn in the Japanese chip market clearly demonstrates the status of foreign semiconductor companies as "marginal" or "residual" suppliers.

In its interim report to the President, the SIA also maintained that U.S. semiconductor firms have made considerable efforts to achieve the 20- percent market-share goal. According to the report, under the 1986 agreement U.S. companies opened an average of one new facility (design center, test center, or manufacturing plant) per month in Japan, and expanded many existing facilities. Additionally, the report pointed to the opening of two new design centers in Japan and an estimated 15-percent increase in technical personnel by U.S. semiconductor firms in 1991 as evidence of U.S. firms' commitment to become more competitive in the Japanese chip market.

Tension between the United States and Japan over trade in semiconductors is likely to increase in the coming months as U.S. and Japanese semiconductor industry officials prepare for upcoming meetings on the subject. Some members of the SIA, alarmed by a sharp fall in the prices of semiconductors produced in Japan and Korea, have indicated their belief that Japanese producers are again dumping chips on the U.S. market, although no formal charges have been made. Achieving the 20-percent market-share goal, however, reportedly remains the SIA's top priority.

Dispute Settlement Under the U.S.-Canada Free Trade Agreement

January 1, 1992 marked the beginning of the 4th year of the U.S.-Canada Free Trade Agreement (FTA). After 3 years of operation, the agreement appears to have been successful in opening the border to increased commerce (bilateral trade has increased 13.9 percent since the start of the pact.) The agreement has arguably been a catalyst in the movement toward a wider, hemispheric agreement involving Mexico. The FTA has also been directly responsible for addressing disputes between the two largest North American trading partners.

When the FTA was negotiated in 1987, both sides attempted to construct a mechanism that would address the resolution of trade disputes in a more timely fashion than was afforded them under existing GATT procedures. The intention was that a bilateral process might be more open, direct, and swift than the multilateral procedures then in place. An innovative step was taken with the decision to provide for review through panels of trade experts, chosen by each side. Strict guidelines for due process and timeliness were set out. The aim was to lessen the political sensitivity traditionally associated with U.S.-Canadian trade disputes.

Disputes under the FTA were to be handled in one of two ways. General disputes arising out of the operation of the agreement, which are not resolved through consultations, can be addressed under chapter 18 of the agreement by a panel of five independent experts, two chosen by each side, with the fifth chosen jointly. The second arrangement (under chapter 19 of the agreement) allows for binational review of national antidumping (AD) and countervailing duty (CVD) determinations. This review is also conducted by a binational panel of experts; it replaces a review by national courts.

Since the inception of the FTA in 1989, there have been a number of instances of consultation and review under chapter 18. Only two of these cases, however, resulted in the formation of panels; these covered lobsters and salmon and herring. There were no panels in operation last year, although consultations were requested on a number of issues, including rules of origin on automobiles and provincial liquor board policies. Consultations are continuing on these issues.

In the 3-year history of the pact, there have been 23 cases involving binational review of AD or CVD determinations (chapter 19). Eighteen of these had been resolved by the start of 1992. Most of the decisions have been unanimous, although individual panelists have on occasion written dissenting opinions. Currently there are five cases pending. They involve live swine from Canada (two cases), beer from the United States (two cases), and replacement parts for bituminous paving equipment from Canada.

The panel review process embodied in chapter 19 of the agreement has proven to be a practical mechanism for resolving bilateral AD and CVD disputes. The general consultation/dispute procedures of chapter 18 have also proven constructive as a means of addressing high-profile difficulties without rancor.

There are currently a number of bilateral issues that are the subject of considerable attention on both sides of the border. These include the imposition of additional duties on certain automobiles as a result of a U.S. Customs determination on domestic content, and a finding by the U.S. Department of Commerce of subsidization affecting softwood lumber from Canada. Depending on the outcome of these cases, they could become subject to the bilateral dispute settlement procedures already in place—in chapters 18 and 19 respectively. They also could bear directly on the negotiations currently taking place toward the establishment of a North American free-trade agreement (NAFTA). The fact that the two most significant categories of Canadian exports to the United States—cars and lumber—have become the subject of U.S. action has generated much discussion in Canada. Already there is mounting press speculation that the satisfaction or lack thereof with the free-trade arrangement already in place will undoubtedly affect willingness to broaden the system and include other partners.

SPECIAL FOCUS

Regional Organizations in the Asian Pacific Region

A wide spectrum of organizations offer proposals that seek to forge closer political or economic cooperation in the Asian Pacific[19] region. These range from the loose nongovernmental forum known as Asian Pacific Economic Cooperation (APEC) to Thailand's proposal for a free-trade area under ASEAN. While the earliest of these organizations dates back to the 1960s, it has only been in recent years that countries of the region have begun to look more seriously at regional organizations as a focal point for furthering their common economic interests. The focus of these organizations has shifted over the years to reflect changing political, economic, and security realities of both the region and the world.

While organizations such as the Association of Southeast Asian Nations (ASEAN) have been recognized for achieving a high level of political cooperation, efforts at regional economic cooperation have been less successful. Many studies and observers have concluded that there remain major obstacles to economic cooperation or integration in the Asian Pacific region, including disparate levels of economic development and differing economic, political, and social systems.[20] Some of the most important issues that have faced existing regional organizations include questions relating to membership, (i.e., how to handle the admission of the People's Republic of China [PRC], Taiwan, and Vietnam) and the reaction of other global trading partners to economic integration efforts. However, since the late 1980s certain developments have contributed to increased economic cooperation, especially among ASEAN countries. These factors include the lowering of tariff and nontariff barriers by individual countries and a recognition of the need to facilitate the flow of goods and capital among countries of the region to attract foreign investment. There is an awareness in the region that multinationals must be able to invest in multiplant operations in various countries in order to achieve economies of scale. With a combined population of 320 million people and gross national product (GNP) of $300 billion within ASEAN alone, this region has become an appealing market for outside investors hoping to tap into the area's growing consumer markets.

The purpose of this article is to identify regional institutional arrangements in the Asian Pacific region and to provide a brief summary of the history and purposes of such organizations. Recent developments and some perspective on the roles that the United States and Japan have taken with respect to these organizations will also be discussed. There will be no attempt to analyze trade or investment flows or to provide an analysis of regional economic integration (including de facto economic groupings); these topics will be covered in future articles.

ASEAN

ASEAN was established in 1967 in Bangkok and succeeded the Association of Southeast Asia. The original signatories to the Bangkok Declaration were Indonesia, Malaysia, the Philippines, Thailand and Singapore. Brunei joined ASEAN in 1984. In January 1991, ASEAN members indicated that they would eventually be willing to allow Vietnam, Cambodia, Laos, and Myanmar to join the organization.[21] ASEAN holds annual meetings of ministerial-level representatives from member countries. The permanent secretariat for ASEAN was established in 1976 at a summit held in Bali. The secretariat is in Jakarta, Indonesia.[22] On October 7, 1991 ASEAN held its 23d annual meeting. The ASEAN economic ministers oversee five permanent committees, each hosted by a different member state, that were established to implement ASEAN's economic goals.[23]

The major purposes of ASEAN, as stated in the Bangkok Declaration, are to promote economic growth, expand trade, promote regional peace and stability and improve transport and communications. Throughout the 1970s and particularly after the fall of South Vietnam, ASEAN's focus was on preserving peace and countering Communism in the region.[24] In 1976, following the signing of the Declaration of ASEAN Accord, ASEAN's emphasis began to shift from politics to economics. However, ASEAN member countries "chose not to adopt a purely trade-driven approach" to economic growth. Members decided to focus on expanding productivity through establishing regional manufacturing facilities, cooperating on basic commodities and production processes, enacting preferential trading arrangements, and harmonization of trade and investment policies.[25] [26]

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[19] Includes the countries of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Philippines, Singapore, Thailand, and Brunei—and Hong Kong, South Korea, Taiwan, Japan and Australia. Some of the organizations discussed in this article also include the United States, Canada, Peru, Chile and Mexico.

[20] For background information, see USITC, *The Pros and Cons of Entering Into Negotiations on Free Trade Area Agreements with Taiwan, ASEAN or the Pacific Rim in General,* USITC publication 2166, Mar. 1989; and Lawrence B. Krause and Sueo Sekiguchi, eds., *Economic Interaction in the Pacific Basin* (Washington, DC: The Brookings Institution, 1980).

[21] Vietnam and Laos had expressed interest in joining ASEAN and it was considered somewhat of a surprise when they were denied admission at the Jan. 1991 ministerial. "Southeast Asians Sign Accords on Free-Trade Zone," *Washington Post,* Jan. 29, 1992, p. A27 and Mark Magnier, "Asian Nations Cut Tariffs on Several Thousand Products," *The Journal of Commerce,* Jan. 24, 1992, p. 5A.

[22] "Directory of Pacific Basin Institutions," United States National Committee for Pacific Economic Cooperation, Oct. 1988.

[23] Robert L. Curry, "Regional Economic Co-operation in Southern Africa and Southeast Asia, *ASEAN Economic Bulletin,* vol. 8, No. 1, (July 1991), Curry, p. 21.

[24] Ibid. p. 18.

[25] Ibid.

[26] "Spotlight is on the ASEAN Countries as Tenth ASEAN-U.S. Dialogue Begins," *Business America,* June 17, 1991, pp. 16-21.

Several market-sharing or production-cooperation schemes have been attempted under ASEAN, including the Preferential Trading Arrangements (PTAs), the ASEAN Industrial Joint Venture (AIJV), and the ASEAN Industrial Complementation (AIC) and the ASEAN Industrial Projects (AIP).[27] In 1977, the ASEAN states agreed to PTAs that included incentives to expand trade and investment in member countries and that focused mainly on intraregional tariff reductions. PTAs also provided for trade financing at preferential interest rates, preferences in government procurement, and the liberalization of nontariff measures. AIC provides for the coproduction of final products and components that compliment other production within and among ASEAN countries. Under AIP, large-scale regional companies in which member countries share 40 percent of the equity, may be established. The output of these regional industries is permitted to enter other member countries duty free. The AIJV program grants preferential tariff rates to intra-ASEAN trade from joint ventures involving two or more ASEAN countries and their foreign partner. The non-ASEAN partner may not hold more than 60-percent ownership in the joint venture.[28]

In general, these programs have been difficult to implement because member countries have sought exemptions on preferential issues and because of nontariff issues that have diminished the effects of tariff cuts.[29] As a result, these schemes have not produced meaningful benefits, according to some observers.[30] However, ASEAN economies are among the fastest growing in the world, and government policies of member countries have led to greater diversification in the economies of the region.[31]

At the annual ministerial meeting in October, eight new AIJVs in manufacturing and agroprocessing were endorsed by the economic ministers. The projects include: an enamel production project by Indonesia and Malaysia; an aluminum hydroxide production joint venture between Indonesia and Thailand; a joint investment to produce heavy equipment by Malaysia and Indonesia, and four projects involving the participation of the Nestle Co. to produce breakfast cereal, soya-based milk, and related products. The brand-to-brand complementation scheme was expanded to include nonautomotive areas such as services and infrastructure products. To date, Japanese auto producers have benefited the most from the program aimed at specializing production of selected parts and components in member countries.[32]

[27] Curry, p. 21.
[28] Ibid, pp. 20-21.
[29] Ibid, p. 25.
[30] "Daily Notes Merits of ASEAN Free Trade Area," *Foreign Broadcast Information Service* (FBIS), Oct. 23, 1991, pp. 1-3.
[31] "Spotlight is on the ASEAN Countries as Tenth ASEAN-U.S. Dialogue Begins," pp. 16- 21.
[32] "Approve 8 Joint Ventures," *FBIS*, Oct. 9, 1991.

ASEAN also holds regular dialogue meetings with the United States, the European Community, Australia, Canada, Japan, New Zealand, and the United Nations Development Programme to encourage investment, trade and economic growth. These post-ministerial conferences among ASEAN foreign ministers have become important in facilitating communication between ASEAN and its major developed trading partners.[33]

AFTA

In July 1991 at the annual postministerial conference, ASEAN foreign ministers issued a communiqué endorsing a proposal that had been put forth by Thailand to create an ASEAN free-trade area and set up a working group to submit recommendations at the annual summit in January 1992.[34] At the annual meeting of ASEAN ministers in October 1991, Prime Minister Anan Panyarachun of Thailand further encouraged the establishment of an ASEAN Free-Trade Area (AFTA) by the year 2000.[35] In explaining the reasons for his proposal, Prime Minister Anan said: "ASEAN countries had no other choice but to integrate or become a small player in a large playing field".[36]

At the fourth annual ASEAN summit held in January 1992, the six ASEAN countries signed the Singapore Declaration or framework agreement to further economic cooperation and the Common Effective Preferential Tariffs (CEPT)[37] agreement that will lead towards the ASEAN Free Trade Area (AFTA).[38] The AFTA is a somewhat weaker version of the Thai proposal that will phase out tariffs over 15 years rather than 10 years. Under AFTA, tariff reductions will be applied to manufactured and capital goods and processed agricultural products. Fifteen types of manufactured goods would be subject to tariff reductions immediately. The tariff reductions would occur in two stages, with the first beginning on January 1, 1993. The more advanced economies of Thailand, Malaysia, Brunei and Singapore had favored a faster schedule for the elimination of tariffs, while Indonesia and the Philippines wanted to move slower.[39] The elimination of high tariff duties among member states is expected to encourage companies to serve the region by using one country as a manufacturing base.

[33] Curry, p. 26.
[34] "ASEAN Talks Turn to Tighter Economic Security Ties," *Japan Economic Institute Report*, Aug. 2, 1991, pp. 9-11.
[35] "Anan Confident on Establishing Free Trade Area," *FBIS*, Oct. 1, 1991, p. 51.
[36] Ibid.
[37] The CEPT scheme was proposed by Indonesia as a method for reducing tariffs on manufactured goods, at first, to between 0 and 5 percent.
[38] "Fourth ASEAN Summit Opens in Singapore 27 Jan," *FBIS*, Jan. 28, 1992, p. 1.
[39] Mark Magnier, "Asian Free-Trade Compromise Proposed," *Journal of Commerce*, Jan. 23, 1992, p. 5A.

Japan's relationship with ASEAN

Japan has traditionally supported ASEAN goals and has attempted to maintain a "partnership relationship" with the organization, seeking to assure member countries of its intentions with regard to security considerations. In 1977, for example, under the Fukuda Doctrine, Japan pledged an increase in economic assistance to joint ventures in ASEAN and an increase in Japan's imports from ASEAN countries. In 1981, Prime Minister Zenko Suzuki followed up on the Fukuda Doctrine in calling for the "politics of harmony" between Japan and ASEAN. In 1986, the Abe doctrine renewed Japan's partnership with ASEAN.[40]

More recently, in May 1991, Japan's Prime Minister Kaifu traveled to ASEAN countries to reassure them about the deployment of minesweepers to aid in the postwar cleanup of the Persian Gulf. He emphasized that there had been no change in Japan's self-defense policy and that present actions were not meant as a display of military power. That same month, at a meeting of ASEAN ministers, Japan's Foreign Minister suggested that an annual informational dialogue be changed to a regular ministerial-level conference on political and security matters. The proposal reportedly surprised most representatives in attendance and was rejected. Representatives from South Korea (an observer country) and Indonesia indicated that they felt that while security was an important issue that could be discussed, it was just one of many topics and there was no need to institutionalize security talks within ASEAN.[41] However, the joint communiqué issued by the ASEAN foreign ministers noted that there was increasing interest in "regional peace and security issues" and agreed that the postministerial conference of dialogue partners was the appropriate forum for discussing such topics.[42] At the ASEAN ministerial held in January 1991, the members decided that while regional security concerns would be discussed annually, there was no need to create new institutions.[43]

At the ASEAN summit in January 1992, Japan was urged to play a greater role in promoting regional economic cooperation and to continue investing in the region.[44] The Japanese restated their position that any regional economic integration should be based on principles of free trade.[45]

[40] Marie Doherty, "Japan and ASEAN: Political and Economic Relations," *Japan Economic Institute*, Apr. 10, 1987, p. 2.
[41] "Members Comment on Japan's Security Proposal," *FBIS*, July 24, 1991, p. 2.
[42] "ASEAN to Discuss Security Issue," *FBIS*, July 22, 1991, p. 2.
[43] "6 Asian Nations Agree to Form Free-Trade Zone," *Los Angeles Times*, Jan. 29, 1992, p. A4.
[44] "ASEAN Wants Japan Involved in Cooperation," *FBIS*, Nov. 22, 1991, p. 1.
[45] Ibid.

United States' relationship with ASEAN

ASEAN has served as the chief institutional focal point for the U.S. Government in pursuing its diplomatic interests and in offering reassurances on security matters to ASEAN members. The United States has engaged in economic dialogue discussions with ASEAN for over a decade. In 1989, the U.S.-ASEAN Initiative (AUI) proposed a number of ways in which trade, investment and economic relations could be enhanced, including the negotiation of bilateral investment treaties with individual countries. In 1990, ASEAN agreed that implementation of the AUI would be contingent upon the conclusion of the Uruguay Round and that in the meantime, the U.S. dialogue would take place annually before the ASEAN Ministerial Meeting.

On December 21, 1990, the United States signed a Memorandum on Trade and Investment with ASEAN which established a Trade and Investment Cooperation Committee (TICC) to monitor trade and investment relations and to identify trade and investment opportunities. On October 11, 1991, the United States signed a Trade and Investment Framework Agreement (TIFA) with Singapore in accordance with the memorandum.[46] The United States is expected to sign TIFAs with other ASEAN countries, furthering free trade in the region.

APEC

APEC was established at a Ministerial Conference in Canberra, Australia, in 1989. It includes ASEAN, the United States, Korea, Japan, Canada, Australia and New Zealand.[47] [48] The purpose of the organization is to promote official economic cooperation in the region. At the Canberra conference, there was a recognition among member states of the need for an effective means for strengthening the multilateral trading system, providing an opportunity to assess trade and investment in the Asian Pacific region and to identify common economic interests. It was also noted that involvement of the PRC, Hong Kong, and Taiwan in the organization was desirable.[49] The "Three Chinas" joined APEC at its annual ministerial held in Seoul, November 12 through 14, 1991;[50] this brought total membership in APEC to 15 countries.[51] The admission of the "Three Chinas" into APEC was significant because it provided a broader basis for regional cooperation and an opportunity for representatives from all three countries to exchange views.

[46] "Southeast Asia Trade Opening Up," *The Globe and Mail*, Oct. 14, 1991, p. B13.
[47] "Asia Pacific Forum to Address Framework," *Journal of Commerce*, (Oct. 15, 1991) pp.
[48] APEC has held two ministerial meetings and one trade ministers meeting since 1989. "Goals, Progress of APEC Trade Bloc Reviewed," *FBIS*, Aug. 27, 1991, p. 23.
[49] "Chairman's Summary Statement," Ministerial Level Meeting, Australia Overseas Information Service, Nov. 1989, p. 5.
[50] "Expanded Regional Economic Cooperation Planned," *FBIS*, Oct. 18, 1991, p. 25.
[51] APEC countries reportedly account for approximately 46 percent of global GNP and one-third of world trade volume. "Pacific Rim Nations Fear Stalled GATT Talks," *Washington Post*, July 31, 1990; p. A 18.

APEC has never had an institutional framework and has focused on cooperation among the "economies" rather than countries of the region.[52] However, recent moves toward NAFTA and economic integration in the EC have sparked an interest in developing a closer arrangement among members. At the APEC ministerial in November 1991, attended by finance and trade ministers from representative countries, the issue of establishing a permanent secretariat was raised. However, because of concerns among ASEAN countries about the potential for APEC becoming too powerful, a decision was postponed pending further study.[53] APEC representatives took another step towards institutionalization in adopting the Seoul declaration that established annual summit meetings and additional ministerial meetings as necessary. APEC also reaffirmed its commitment to free trade and the strengthening the multilateral trading system by endorsing a successful conclusion of the Uruguay Round.[54] It also recognized the roles played by ASEAN and the PECC in encouraging closer cooperation in the region. The declaration indicated that APEC would seek to promote regional trade, investment, financial resource flows, human resources development, technology transfer, industrial cooperation and infrastructure development.[55] Ten working groups covering such topics as transportation, telecommunications, regional trade liberalization, technology transfer, and investment presented status reports at the ministerial.

APEC instituted a human resources development program with the goal of training managers who will contribute to the development of APEC member countries. In January, Japan announced that it would cooperate in the program. Trainees from APEC countries will attend courses in Japan and a government-business consultation council will be initiated to promote the program.[56]

The United States has been a major proponent of APEC. In July 1991, Secretary of State James Baker reiterated his personal support for the organization, noting that it symbolized the economic vitality of the region and that it was important for APEC to continue to work toward the successful conclusion of the Uruguay Round.[57] While some observers believe that APEC is being invigorated by the inclusion of new members and interest from the United States,[58] others believe that the main APEC role is to serve as a counterweight to more exclusionary proposals:

> The key issue for the APEC meeting. . . however, is whether APEC is a paper tiger whose only purpose is to oppose and eventually grind down Malaysia's caucus, or whether APEC will actually evolve into something with a substantial agenda, a structure and a budget. At present it has none of these.[59]

Some countries have opposed APEC becoming an exclusionary trading bloc, arguing that regional blocs do not facilitate world trade.[60] In the meantime, APEC has issued declarations saying that it is open to any nation that wishes to join.[61]

PBEC

The Pacific Basin Economic Council (PBEC) is a private-sector group that was organized in 1967. The participants are primarily businessmen, from 12 member countries.[62] PBEC's members include the United States, Canada, Japan, Australia, New Zealand, Korea, Taiwan, Hong Kong, Malaysia, Mexico, Chile, and Peru. The membership of two more countries, Fiji and the Philippines, will be acted upon at PBEC's next annual meeting in May 1992.

PBEC serves as a forum for strengthening economic and business relations among its members who generally support the elimination of trade barriers and the promotion of regional economic cooperation. Approximately 900 corporations belong to PBEC, representing services, manufacturing, and natural resource industries.

PBEC's secretariat is in San Francisco. PBEC holds an annual meeting in a different member country each May. In 1991, PBEC's annual meeting was held in Guadalajara, Mexico. A major topic of discussion in 1991 was the NAFTA. PBEC also participates in PECC through institutional membership on two of PECC's committees.[63]

PECC

PECC was initiated by the Prime Ministers of Japan and Australia in 1980 in Canberra, Australia. The organization seeks to facilitate regional cooperation and has formulated regional positions for the Uruguay Round negotiations. PECC members include Australia, Brunei, Canada, China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Pacific islands, Philippines, Singapore, Taiwan, Thailand, and the United States. Participants in PECC meetings include mostly academics, some government

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52 "APEC Activities, Goals Viewed," *FBIS*, Sept. 18, 1991, pp. 2-3.

53 "Asia Pacific Forum to Address Framework," *Journal of Commerce*, Oct. 15, 1991.

54 *Pacific Basin Economic Council International Bulletin*, Jan. 10, 1992.

55 "'Seoul Declaration Adopted'", *FBIS*, Nov. 14, 1991, pp. 2-3.

56 "Cooperation in APEC Workers' Program Planned," *FBIS*, Jan. 28, 1991, p. 16.

57 "Thai Minister, Baker on ASEAN-U.S. Dialogue," *FBIS*, July 24, 1991, p.5.

58 "Keeping cool on trade," *Far Eastern Economic Review*, (Oct. 31, 1991), p. 23.

59 "Asian Nations Have Yet To Mold Form of Regional Trade Pact," *Journal of Commerce*, Nov. 12, 1991.

60 "Asia Pacific Group to Consider Role in World Growing Trade Blocs," *Journal of Commerce*, Nov. 12, 1991

61 "Development of Asian Economic Center Pondered," *FBIS*, Nov. 22, 1991, p. 10.

62 Shi Min, "The World Economic Pattern in the 1990s and Asia-Pacific Economic Cooperation," *Journal of North East Asian Studies*, vol. ix, No. 5 (Fall 1990), p. 58.

63 *Pacific Basin Economic Council International Bulletin*, (June 25, 1991).

officials, and businessmen. Although PECC is a nongovernmental organization, PECC committees receive government funding and members are appointed by governments. General meetings are held approximately every 18 months.[64] PECC held its eighth general meeting in Singapore in May 1991 at which time Chile, Hong Kong, Mexico and Peru became members.[65]

EAEG

The East Asian Economic Grouping (EAEG) was proposed by Malaysia's Prime Minister Mahathir Mohamed in December 1990 as a consultative forum where representatives from East Asian countries could discuss and develop a common position on economic and trade issues.[66] Another reason for proposing EAEG, according to Prime Minister Mahathir was, "the EAEG combined market will be too attractive for Europe and America not to negotiate with" and it would give participants more leverage in international negotiations.[67] The EAEG would include ASEAN, Japan, China and South Korea. The group, however, would not include the United States, leaving Japan as the dominant power in the organization.[68]

The United States, Japan, China, and Indonesia have opposed the EAEG proposal, fearing that an exclusionary trading block would develop in East Asia and arguing that the EAEG would duplicate APEC functions and was therefore unnecessary.[69] [70] Thailand, Singapore, the Philippines, and Brunei offered reserved support for the proposal.[71] Indonesia was reportedly resentful of Prime Minister Mahathir's efforts because it has traditionally taken the leadership role in ASEAN's relations with other countries.[72] At the ASEAN postministerial conference held in July, Secretary of State James Baker discouraged members from supporting the EAEG proposal.[73]

At the ASEAN economic ministers meeting in October, the name EAEG was changed to the East Asian Economic Caucus (EAEC) in order to address concerns that a regional trading bloc was being proposed. The EAEC is a more moderate version of the EAEG proposal, without references to financing or coordination among members.[74] In November, Japan reportedly proposed that the EAEC be folded into APEC as a "non-standing consultative organ" in which ministers would hold discussions during APEC meetings. Japan reportedly wanted the EAEC to "play the role of an organ monitoring the EC and NAFTA so that they will not increase their natures as exclusive."[75]

In December 1991, Prime Minister Mahathir visited Japan and South Korea in an unsuccessful attempt to win support for his proposal in advance of President Bush's visit to the region. At the ASEAN summit meeting in January, no consensus was reached on the EAEC proposal, reflecting the differing views of member states. Indonesia suggested that the proposal needed clarification, effectively putting it on hold.[76] Approval of the EAEC at the summit would have created further tensions with the United States, which had already declared its strong opposition to the proposal.

Other regional groupings

Over the past two decades, numerous proposals have been put forward to promote regional economic, political or security cooperation in the Asian Pacific area, such as an OECD type of arrangement, a mini-GATT arrangement, and Ambassador Mike Mansfield's proposal that was later put forward by Senator Robert Byrd calling for a free-trade agreement with the United States, to name a few. As recently as February 1992, yet another proposal was put forth by Japan's former Prime Minster Yasuhiro Nakasone, who suggested a new Pan-Pacific organization that would include Asian Pacific nations, the United States, Canada and Mexico. The proposed organization would be called the "Grand Pacific Common House for Cultural and Economic Cooperation" and its purpose would be to promote democratic free trade in East Asia.[77]

Conclusions

Both internal political and economic factors and external events are likely to continue to affect the maturation of East Asian regional organizations. The current period of self-assessment that is occurring within East Asia against the backdrop of multilateral and regional trade talks will probably continue for the short term. While the process of economic and political cooperation had been progressing at a snail's pace until recently, there could be more urgent steps towards closer ties or stronger organizations in the region under certain conditions. For example, if the Uruguay Round negotiations fail, or if moves in the

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[64] Ibid.

[65] Ibid.

[66] Michael Vatikiotis, "Time for decisions," *Far Eastern Economic Review*, (Jan. 16, 1992), p. 24.

[67] "Mahathir Emphasizes Dominant Stand on EAEG," *FBIS*, Sept. 27, 1991, p. 29.

[68] "Southeast Asians Inch Toward Developing Regional Trade Bloc," *Christian Science Monitor*, July 25, 1991, p. 4.

[69] "Mahathir Emphasizes Dominant Stand on EAEG," *FBIS*, 12 Sept. 27, 1991, p. 29.

[70] "Intra-ASEAN Cooperation Urged," *FBIS*, June 25, 1991, p. 52.

[71] "The Eye on Japan," *The Economist*, Feb. 1, 1992, pp. 36-37.

[72] Peter Kandiah, "Economics becoming ASEAN raison d'etre," *Nikkei Weekly*, Jan. 1, 1992, p. 1.

[73] "ASEAN Talks Turn to Tighter Economic Security Ties," p. 11.

[74] "Keeping Cool on Trade," *Far Eastern Economic Review*, Oct. 31, 1991, p. 23.

[75] U.S. Department of State telegram, Nov. 25, 1991, Tokyo, Japan, message reference No. 21163 (unclassified).

[76] "The Eye on Japan," p. 37 and Charles P. Wallace, "6 Asian Nations Agree," p. A4.

[77] Mark Magnier, "Asians Play Catchup in Steps Toward Free-Trade Pacts," *Journal of Commerce*, Jan. 27, 1992, p. 1.

EC or North America toward free trade and integration are perceived as a threat to the export interests of East Asian countries, the region may turn inward. Current trade, investment, economic and political trends, and social conditions may already be moving the region in that direction. In addition, ASEAN's goals for creating the AFTA surpass other sectoral approaches of the past 25 years. The success of AFTA may hinge on continued economic progress that would bring countries in the region closer together and the political will to overcome protectionist sentiments.

East Asian countries may also decide that they can better promote their interests in multilateral forums by presenting their views from the standpoint of regional groupings. In addition, to the extent that these relatively small economies believe they can achieve economies of scale for large projects through combined markets and free trade, there may be an incentive for the members of ASEAN or APEC to work towards strengthening their ties. Over the long-term, intraregional trade and investments are expected to increase and along with them the possibility that countries will turn to existing or new institutions to foster regional economic interests. Pressures may also increase for existing institutions to focus on regional security issues as U.S. involvement in the region declines in response to a diminished Soviet threat and as other issues emerge such as North Korea's nuclear program or Japan's military role in the region. The inclusion of Northeast Asian countries and the "Three Chinas" in regional discussions could provide a test of diplomatic skills.

The United States and Japan can be expected to continue to play major roles within regional organizations and behind the scenes. The United States has apparently succeeded for the moment in putting the EAEC proposal on hold through tough lobbying with Japan. The United States continues to push APEC as its major vehicle for discussions in the region. It is not certain, however, that Japan has turned its back on the EAEC proposal entirely. Increasing interdependence in the region, including ties with Japan and China, and fears about outside events could encourage countries of the region to consider "going it alone."

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STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1988-December 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

					1991								
Country	1988	1989	1990	1991	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.
United States	5.4	2.6	1.0	(1)	-9.6	2.4	6.5	(1)	-1.1	2.2	0	-4.3	(1)
Japan	9.5	6.2	4.5	2.2	-0.5	-2.7	1.3	-2.4	-26.5	5.8	-0.9	4.8	-8.1
Canada	4.4	2.0	0.3	-0.9	-1.2	-6.4	-3.0	-1.2	-4.3	-2.2	0	-1.1	1.1
Germany	3.2	5.3	5.9	(1)	0.6	8.4	-4.4	(1)	-24.1	18.3	-4.8	6.1	(1)
United Kingdom	3.7	0.3	-0.6	(1)	-1.1	-4.4	3.6	(1)	-19.3	1.1	10.7	-7.6	(1)
France	4.1	3.7	1.3	(1)	1.0	3.1	2.1	(1)	0	-15.6	14.8	-7.1	(1)
Italy	6.9	3.9	-0.6	(1)	3.9	-3.2	-9.1	(1)	-40.6	51.7	-3.1	40.8	(1)

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, February 21, 1992.

Consumer prices, by selected countries and by specified periods, January 1989-January 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

				1991										
Country	1989	1990	1991	I	II	III	IV	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
United States	4.8	5.4	4.2	3.5	2.1	3.0	3.2	2.7	2.7	4.5	0.9	5.4	3.5	(1)
Japan	2.3	3.1	3.3	4.3	1.0	2.0	3.8	3.5	2.5	-3.9	7.7	9.1	-0.9	-0.9
Canada	5.0	4.8	5.6	11.3	2.9	1.8	0.2	1.9	2.9	0	-2.8	2.9	(1)	(1)
Germany	2.8	2.7	3.5	1.4	3.5	7.6	3.4	15.2	2.2	3.3	3.3	5.5	2.1	(1)
United Kingdom	7.8	9.5	5.9	4.2	4.1	4.2	4.2	4.7	2.1	3.3	3.7	5.7	(1)	(1)
France	3.5	3.4	3.1	2.3	2.2	3.1	3.6	3.3	3.1	2.9	3.7	4.2	(1)	(1)
Italy	6.6	6.1	6.5	6.9	6.2	5.6	5.7	5.0	4.8	5.2	5.7	7.1	4.5	7.7

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, February 21, 1992.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, January 1989-January 1992

				1991									1992
Country	1989	1990	1991	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
United States	5.3	5.5	6.7	6.5	6.7	6.8	6.9	6.7	6.7	6.9	6.9	7.1	7.1
Japan	2.3	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.1	2.2	2.2	(4)
Canada	7.5	8.1	10.3	10.1	10.3	10.4	10.3	10.5	10.2	10.3	10.3	10.3	10.4
Germany	5.7	5.2	4.6	4.6	4.6	4.6	4.5	4.6	4.6	4.6	4.4	4.4	4.4
United Kingdom	7.1	6.9	9.4	8.2	9.2	10.0	10.3	9.9	10.1	10.2	10.3	10.5	10.7
France	9.6	9.2	9.8	9.4	9.8	10.0	10.2	10.0	(4)	10.2	10.3	10.3	(4)
Italy[2]	7.8	7.0	6.9	6.8	6.9	6.6	7.0	(3)	(3)	(3)	(3)	(3)	(3)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

[2] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1986-1990.

[3] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[4] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, March 1992.

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Money-market interest rates,[1] by selected countries and by specified periods, January 1989-February 1992

(Percentage, annual rates)

				1991									1992	
Country	*1989*	*1990*	*1991*	*I*	*II*	*III*	*IV*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*
United States	9.3	8.3	5.9	6.8	6.1	5.8	5.0	5.6	5.5	5.3	4.9	4.4	4.5	4.0
Japan	5.3	6.9	7.5	7.7	7.6	7.6	7.2	7.6	7.6	9.3	9.5	([2])	([2])	([2])
Canada	12.2	13.0	9.0	10.5	9.2	8.7	7.8	8.7	8.6	8.3	7.7	7.4	7.5	([2])
Germany	7.0	8.5	9.2	9.1	9.0	9.2	9.4	9.2	9.2	9.2	9.3	9.6	9.5	([2])
United Kingdom	13.3	14.8	11.5	13.1	11.5	10.7	10.5	10.9	10.2	11.5	10.5	10.7	10.6	([2])
France	9.2	10.3	9.5	9.7	9.3	9.5	9.6	9.5	9.4	10.4	9.23	9.5	9.9	([2])
Italy	12.7	12.7	12.1	12.7	11.7	11.8	12.0	11.9	11.7	11.5	11.9	12.6	12.6	([2])

[1] 90-day certificate of deposit.

[2] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Federal Reserve Statistical Release, March, 1992 Economic and Energy Indicators*, Central Intelligence Agency, February 21, 1992.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1989-February 1992

(Percentage change from previous period)

				1991								1992	
Item	*1989*	*1990*	*1991*	*I*	*II*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*
Unadjusted:													
Index[1]	91.3	86.5	85.5	82.8	87.7	87.6	84.0	86.1	85.3	83.8	82.8	83.0	84.8
Percentage change	6.4	-5.3	-1.2	1.3	5.6	-.1	-4.1	-1.9	-.9	-1.7	-1.2	.2	2.1
Adjusted: Index[1]	91.8	88.1	87.0	85.2	89.6	88.4	85.6	86.8	86.9	85.4	84.4	84.6	86.4
Percentage change	6.8	-4.0	-1.2	1.3	4.9	-.1	-3.2	-2.3	-1.0	-1.7	-1.2	.2	2.1

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S.dollar is a trade-weighted average in terms of the currencies of 15 other major nations.The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co.of New York, March 1992.

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Trade balances, by selected countries and by specified periods, January 1989-January 1992

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1989	1990	1991	1991 I	1991 II	1991 III	1991 IV	1991 Oct.	1991 Nov.	1991 Dec.	1992 Jan.
United States[1]	-109.1	-101.7	-66.2	-62.4	-52.2	-72.4	-65.7	-75.8	-50.0	-71.9	-69.2
Japan	77.4	63.5	103.3	87.6	94.0	110.0	117.2	115.2	108.0	127.2	(3)
Canada	6.0	9.4	(3)	9.2	10.4	3.2	(3)	1.2	3.6	(3)	(3)
Germany[2]	71.8	57.3	(3)	13.6	-0.8	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	-40.4	-33.4	-17.6	-21.6	-14.0	-14.4	-17.6	-18.0	-19.2	-15.6	(3)
France	-7.0	-9.1	-5.5	-10.4	-5.2	-7.6	2.0	13.2	1.2	-9.6	(3)
Italy	-13.3	-10.1	-13.0	-1.6	-17.2	-18.4	-10.4	-16.8	-13.2	-3.6	(3)

[1] 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

[2] Imports, c.i.f value, adjusted.

[3] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, February 21, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, March 19, 1992.

U.S. trade balance,[1] by major commodity categories,and by specified periods, January 1989-January 1992

(In billions of dollars)

Country	1989	1990	1991	1991 II	1991 III	1991 IV	1991 Oct.	1991 Nov.	1991 Dec.	1992 Jan.
Commodity categories:										
Agriculture	17.9	16.3	16.2	2.8	3.3	5.4	1.5	2.1	1.8	1.6
Petroleum and selected product—(unadjusted)	-44.7	-54.6	-42.3	-10.0	-10.9	10.0	-3.5	-3.3	-3.2	-3.0
Manufactured goods	-103.2	-90.1	-67.2	-10.5	-20.9	-21.5	-9.3	-6.0	-6.2	-5.6
Selected countries:										
Western Europe	-1.3	4.0	16.1	5.1	1.9	3.3	.5	1.7	1.1	1.7
Canada[2]	-9.6	-7.7	-6.0	-1.0	-1.5	-2.1	.3	-.9	-.9	-.2
Japan	-49.0	-41.0	-43.4	-8.9	-11.7	-12.4	—	-3.4	-4.4	-3.8
OPEC (unadjusted)	-17.3	-24.3	-13.8	-3.3	-3.5	-2.5	-1.1	-.8	-.6	-.7
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$16.44	$16.65	$17.52	$17.98	$18.04	$16.55	$14.85

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, March 19, 1992.

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